

VZCZCXYZ0001
RR RUEHWEB

DE RUEHAD #1177/01 3621320
ZNR UUUUU ZZH
R 281320Z DEC 09
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 0077
INFO GULF COOPERATION COUNCIL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEHUL/AMEMBASSY SEOUL 0004

UNCLAS ABU DHABI 001177

SENSITIVE
SIPDIS
DEPARTMENT FOR ISN/NESS, EEB/CBA AND NEA/ARP
STATE PLEASE PASS USTR (MOWREY, BUNTIN)
NSC FOR JOST
COMMERCE FOR ITA AND ADVOCACY CENTER

E.O. 12958: N/A
TAGS: [ECON](#) [ENRG](#) [KNNP](#) [PGOV](#) [EINV](#)
SUBJECT: KOREAN COMPETITION RAISES CONCERNS

REF: ABU DHABI 1173

¶1. (SBU) Summary: KEPCO's success in Abu Dhabi's USD 20 billion nuclear tender (reftel) is the latest - and highest value - example of Korea's growing commercial success in the UAE. UAE officials report Korean technical and commercial advantages, particularly in engineering, procurement and construction (EPC) contracts, are consistently beating American competitors. U.S. firms complain that Korean prices are so low that it raises the possibility firms are benefitting from some form of government subsidy. We have encouraged U.S. companies to provide additional details to support these allegations. End Summary.

¶2. (SBU) On December 27, Korean President Lee Myung-bak and Abu Dhabi Crown Prince Sheikh Khalifa bin Zayed witnessed the signing of a USD 20 billion contract between Korean Power Company (KEPCO) and Emirates Nuclear Energy Corporation (ENEC) to build and operate two nuclear power plants in Western Abu Dhabi (reftel). This landmark deal is only one example of growing UAE-Korean commercial and financial ties. Two way trade jumped in 2008 to exceed USD 25 billion, with Korean and UAE exports both growing over fifty percent. South Korea sells the UAE (its largest trading partner in the Middle East) cars and consumer electronics, while the Abu Dhabi is Korea's largest source of oil and gas. Abu Dhabi National Oil Company (ADNOC) officials told visiting Energy Deputy Secretary Poneman and Ambassador Olson in early December that U.S. EPC firms were being priced out of the market (septel). Despite ADNOC's desire to partner with American companies, Korean companies are increasingly competitive and some U.S. firms are no longer bidding on ADNOC contracts.

¶3. (SBU) U.S. firms tell EmbOffs the Korean competition is growing, particularly in industries where Korean firms were once not even invited to compete. One American executive separately told DepSec Poneman and Ambassador Olson in early December that Korean firms "are back with a vengeance." He estimated USD 12-15 billion in UAE contracts have been awarded to Korean companies in the recent past. Another executive from an American engineering firm noted that Korean bids are routinely 15-20 percent lower than American firms. While admitting that labor and material costs may be lower, many U.S. reps opined that only government subsidies could result in prices that low. U.S. companies partially blame UAE officials for awarding contracts to the lowest bidder without fully considering the expertise, proven technology and partnerships U.S. companies bring to the table. EmbOffs have encouraged U.S. firms to provide any details they may have about Korean government support.

¶4. (SBU) Korean diplomats here are actively seeking to boost trade and investment ties. While Korean firms have reportedly invested almost USD 380 million in the UAE, UAE investment in Korea has yet to take off. In November 2009, the Korean Investment Corporation and the Abu Dhabi Investment Authority signed an MOU to expand cooperation. Senior Abu Dhabi officials regularly visit Korea, both to promote existing energy business and to look for new opportunities.

¶5. (SBU) This desire to expand ties was demonstrated by the Economic Cooperation Agreement the UAE signed with Korea on the margins of the nuclear contract. In the agreement, both parties agreed to seek ways to expand economic cooperation in the fields of nuclear and renewable energy, shipbuilding, information communications technology and human resource development, including education. South Korea is likely to seek to maximize these opportunities, further expanding and diversifying Korea's role in the UAE economy.

¶6. (SBU) Comment: UAE officials tell us they are convinced Korean firms are as technically qualified as their U.S. competitors, leaving them no choice to award contracts to cheaper Korean firms. US firms counter that the UAE system does not fully evaluate the

value content of American proposals, which may be costlier but offer superior technology and better performance in the long haul. UAE officials reply that they simply cannot justify spending more just to demonstrate their commitment to partnerships with the USG and U.S. private sector. In addition to the cost savings and the trade balance such contracts bring to the UAE-Korean relationship, South Korea is an interesting economic model for the UAE (the chaebol system, in particular, seems familiar to both Abu Dhabi and Dubai, who have attempted to build similar world-class, government backed conglomerates). As the Emirates seek to diversify their economy to develop hi-tech manufacturing and promote employment, the UAE's economic ties with Korea are only likely to continue to grow. End Comment.
OLSON